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FM AMEMBASSY PHNOM PENH
TO RUEHC/SECSTATE WASHDC IMMEDIATE 7520
INFO RUCNASE/ASEAN MEMBER COLLECTIVE
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UNCLAS SECTION 01 OF 02 PHNOM PENH 001940

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DEPARTMENT FOR EAP/MLS AND EB/ESC/IEC
STATE PLEASE PASS OPIC FOR MICHELLE PEREIRA AND DAVID FRANTZ
STATE PASS USAID FOR ANE
COMMERCE FOR HONG-PHONG PHO

E.O. 12958: N/A
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SUBJECT: CAMBODIA: UPDATE ON PETROLEUM SECTOR

REF: PHNOM PENH 1460

11. (U) Donor representatives met October 25 to review recent developments in efforts to help Cambodia learn to manage its oil revenue in a transparent manner that benefits the Cambodian people. A focus of the discussion was on public outreach to increase awareness of the revenue windfall that is likely to accrue to the Cambodian people and to raise expectations that the revenue will be used for their benefit.

In this connection, Douglas Gardener (UNDP) noted that UNDP was able to insert a paragraph on the link between oil revenues and development outcomes (i.e.; schools, hospitals) into remarks delivered at the conference celebrating the fifteenth anniversary of the Paris Peace Accords, which was replayed on local television several times over the weekend. Participants also agreed on the need to meet with the private sector and NGOs to explain what the donors were doing; the private sector, and especially the garment industry, could be sabotaged by elevated wages in other sectors as the result of the "oil curse."

12. (SBU) IMF representative John Nelves called attention to the growing competition between Cambodian National Petroleum Authority (CNPA) and the Ministry of Economy and Finance (MEF) over control of the tax revenue. An IMF mission recently completed a draft schedule of taxation for oil that was internally consistent with the tax law. However, the Council of Ministers (i.e., DPM Sok An and the CNPA) appeared to want the oil tax schedule to be a part of the Petroleum Law. Nelves said that the average government tax revenue would be about 70 percent, which was in line with regional standards.

13. (SBU) Another sign of this growing competition for control was the attendance of MEF Minister Keat Chhon as an observer at the October 16-17 conference on the Extractive Industries Transparency Initiative (EITI) in Oslo. For health reasons, CNPA Director Te Doung Dara was unable to attend. Robert Taliercio (World Bank) observed that currently the MEF appeared to be peripheral to the management of the petroleum sector, but that could change. The World Bank would hold a workshop, essentially a primer on the oil sector, in December and would gauge interest from other ministries, including the MEF.

14. (SBU) ADB Deputy Head of Mission Purnima Rajapakse noted that there was not only competition among ministries for control of the oil revenue, but there were divisions within the Council of Ministers. Rajapakse said that he had noted, and others agreed, that there are tensions between Te Doung Dara and DPM Sok An. (We have previously reported factionalism within the CNPA; reftel.) Rajapakse also quoted

PM Hun Sen as telling donors and IFIs that Sok An and the CNPA were "doing fine" on the upstream part of the equation and thus there was no need for donor/IFI involvement in upstream issues.

15. (SBU) On Cambodia's position regarding the Extractive Industries Transparency Initiative (EITI), after much discussion attendees tended to agree with Taliercio's judgment that the Cambodian government (RGC) would eventually sign on to the EITI. However, the crucial question would be the degree of transparency to which the RGC committed.

16. (U) Donors briefed on current projects underway. Note this supplements information provided in reftel.

AUSAID:

- Drafting Upstream Road Map;
- Preparing draft Petroleum Law;
- Preparing a short course for CNPA

UNDP:

- Preparing an analysis of socio-economic implications of oil and gas, including outcomes under various scenarios, such as different levels of income and public expenditure; UNDP also was sending two researchers to Duke University to learn cost-benefit analysis;

ADB:

- Considering attaching an oil expert to ADB's local office

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- May be able to provide \$2-3 million in technical assistance;

Norwegian Petroleum Directorate (NPD):

- Assistance on understanding/writing contracts and laws;
 - Has Assigned legal and contractual expert to work with CNPA
- MUSSOMELI